

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 29 SEPTEMBER 2020
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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 29 SEPTEMBER 2020 AT 1300 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Tilsley, Jenkins, Bridle, Morrall, Akhtar and Quinnen

NOTICE OF RECORDING/WEBCAST

- 229 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and members of the press/public could record and take photographs except where there were confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

DECLARATIONS OF INTEREST

- 230 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

- Councillor Grindrod - Non-Executive Directors for Acivico Ltd – (non-pecuniary)
 - Councillor Tilsley – Director of Birmingham Airport (referred to on pages 180, 226 & 227 of the document pack)
Also, a beneficiary of West Midlands Pensions Fund
Councillor Tilsley' s Wife - Beneficiary of the Teacher's Pension Fund (referred to on page 57 of the document pack)
 - Councillor Bridle – Beneficiary of West Midlands Pensions Fund
 - Councillor Jenkins – Beneficiary of West Midlands Pensions Fund (Legacy Pension)
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APOLOGIES

- 231 No apologies by Members however, it was noted Jon Roberts External Auditor was unable to attend.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

- 232 **RESOLVED:-**

That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

MINUTES – AUDIT COMMITTEE – 28 JULY 2020

- 233 **RESOLVED:-**

That the public minutes of the last meeting were agreed.

ASSURANCE SESSION - LEADER'S PORTFOLIO

The Chair introduced the session by reminding the Members during previous Audit Committees, the Committee had been developing new ways of working. The new format would enable Members to gain better assurance of the way the Council was managed. The Assurance Sessions would allow Members to raise issues around the risks and seek a response on how these were dealt.

Cabinet Members (portfolio holders) and Directors would appear before the Committee on a rotating basis to give assurance on their area. This was the first meeting of the Committee in its new format.

The Chair referred to the Chartered Institute for Public Finance and Accountancy (CIPFA) Position Statement related to Audit Committees in Local Authorities (published 2018) and read this to the Committee.

The Chair welcomed the Leader to the first Assurance Session of the Committee.

At this juncture, the Leader declared two interests. He was a future beneficiary of the West Midlands Pensions Fund and his partner worked for Birmingham City

Council. Following advice from the Interim City Solicitor, neither of the declarations prevented the Leader from speaking at this Committee.

The Leader informed Members they had received a background paper on the portfolio highlighting some risks and issues. It was highlighted since the External Auditors Report, the pandemic had taken place over the last 6 months therefore there were ongoing issues around Covid-19 impact on the operations going forward.

An overview of the background paper was given, and additional points noted:

Council resilience and financial sustainability

Due to the impact of Cov-19, the Finance Department were working hard to recast the medium to long-term Financial Plan. There was continued awareness around the levels of reserves that were in place in order to mitigate risks around PFI contracts; Commonwealth Games (CWG), Equal Pay liabilities and Paradise Circus.

Though there were concerns around the regular changes in the senior leadership team, reassurance was given as a solution to gain security amongst the senior leadership team across the Council was being worked upon.

Waste service continuity and industrial relations

There had been two strikes in the service over the recent years. BCC was working hard to build industrial relations in this area and to ensure there were better relations going forward. However, it was highlighted during the last 6 months of Covid-19, the Waste Service had worked well through the period. Members of the public had thanked the service for continuing to operate throughout the shutdown which was initially April, May and June. The service had continued to operate more than satisfactory over the recent months.

The Leader informed the Committee he had been speaking to Core Cities, where they had been compiling issues around the Waste Collection Service in their Cities as a result of the lockdown. It was noted, Birmingham had been the reverse and the service performed exceptionally well.

There was a decision to be made as to the future of the service, once there was clarity how the introduction of food waste collection would happen. An Independent Review on the Waste Service had been completed and recommendations were being compiled. However, a decision from Government was awaited on the food and waste collection before any changes were made to the service going forward.

Contractual arrangements relating to the highways PFI Scheme

Kier had been appointed as the interim service provider for the highways PFI Scheme. In order to meet the Council's statutory obligations, Kier would provide continuity with operational highway. In addition, delivering investment works on roads and footways would address some of the issues on the highway networks. The current arrangements with Kier was between 1st April

2020 – June 2021 and the Council were ensuring the procurement of a long-term subcontractor to be in place. This contract had been precured over 10 years and as the market for services was now different, initial discussions had taken place with potential bidders to understand their views on a potential contract. Issues that arose with the original contractor Amey were to be avoided. Discussions were taking place to inform and guide the procurement process for June 2021. It was noted due to the impact of Covid-19, tenderers may be less willing to take a single risk laden PFI contract and these issues are discussed with potential bidders. The Department of Transport for fully informed on the progress.

Contract monitoring and management

Birmingham Audit had issued two separate reports which highlighted substantial issues and weaknesses relating to the management and monitoring of significant contracts. The first being Early Years, which was presented to Audit Committee in March 2019 and a further update provided in January 2020. Early Years had demonstrated significant progress in the service area. The second report was around Travel Assist. Members were aware there was an enquiry taking place to this service and would be reported upon end October, beginning November 2020. As a result, the Leader had no further comments until the outcome of the enquiry was made available.

Financial impact of the Commonwealth Games

The Council had secured £50 million of the £75 million that was outlined in the bid document. Discussions were taking place with Coventry & Warwickshire LEP, Midlands Engine and the Universities on securing remainder of the funds. Covid-19 had impacted on the universities however, there was confidence that some of the remaining £25 million would be secured.

In response to Members questions, the following points were noted:

- Work was taking place across the organisation on creating a culture of good risk management. In addition, there was ongoing work on the medium-term financial plan for the Council. This would look at how the risk register was being managed with appropriate supervision by senior officers and appropriate Cabinet Members. The Committee were informed, Cabinet Members had reviewed the risk register and identified risks that were relevant to their portfolio's. Discussions with the appropriate Director's had taken place to explore how these risks could be mitigated.
- The Audit Committee had been instrumental to the new approach of risk. A proactive group of risk champions were in place. As this was a new approach time, it was noted it would take time to adopt to the change. Quarterly risk related reports were routinely shared with Audit Committee and the Chief Executive with the Corporate Leadership Team (CLT) met once a month to discuss assurance issues around risk, Audit, Annual Governance Statement etc. Therefore, this would ensure there was

dedicated focus to the areas concerned which then would be cascaded down throughout the organisation.

- Monthly Cabinet Member's briefings had Strategic Risk highlighted therefore portfolio holders were fully sighted on these.
- The focus was now on 'operational risks' which had been enhanced however required the same level of scrutiny as the Strategic Risks.
- The delivery plan on behalf of the Leader and the Cabinet had performance indicators and risk focus. All deliverables (strategic or operational) would be monitored through this.
- The Covid-19 Risk Register was referred to as an example. The culture of the organisation was moving in accordance to the situation. As this had not been reported upon via the Audit Committee, it was suggested this could be considered as an option. This would allow the Committee to see how assurances are embedded across the organisation.
- Commonwealth Games Contingency plan – Currently working on the assumption the CWG will take place. The movement of the Olympic Games to summer of 2021 affected other sporting events. This had caused the Organising Committee to look at the timing of the CWG 2022. The opening ceremony had been moved by a day so there was no clash with another event. The view of the Organising Committee was that the CWG would take place summer 2022.
- The Council interest was to deliver the Village in Perry Barr however, due to Covid-19, this would not be ready for the games. The rest of the funding had been secured from the Government and the Combined Authority to ensure the 1400-1500 homes were built on that site.
- The work on the Stadium for the CWG as well the Aquatics Centre (Sandwell) were on schedule. The Aquatic Centre had received some contingency funding to speed the completion.
- Capital Projects were important to the legacy of hosting the Commonwealth Games. The legacy of the village would be attached to this although it would not be ready in time of the event.
- Housing Capital Expenditure – The fire safety measures had caused a delay to the improvements to kitchens and bathrooms modernisation. The HRA were working to a business case that was approved by Cabinet. This would be reviewed when the business case came up for renewal.
- Economy – Local working and devolution. The Council were bringing forward some work on localisation via the Localisation Policy.
- Representations were made to the Government's Consultation on devolution and the Comprehensive Spending Review, however this would not happen due to Covid-19.
- A case had been put forward for a devolution for this not to just the Metro-Mayor level but to the Metropolitan level. Metropolitan level must ensure the decisions made were close to the public needs. This would be seen through the work of localisation.

- Devolution – The Mayors and Leaders of UK had far less powers than USA. The Leader wrote to the Government before the pandemic around European Funding requesting for this could be repurposed from creating new jobs and to preserving existing jobs. It was noted the European Commission had relaxed the rules around ERDF and ESF funding to allow greater flexibility at local level. To date, the UK Government had not indicated if and when European Funding would be relaxed. Representations had been made by BCC, other Metropolitan Authorities across West Midlands and the West Midlands Combined Authority through the Spending Review and Consultation on Devolution to Government about having greater funding and powers devolved to local level.
- Transparency on accessing documents (Audit Committee) – A motion had been passed through City Council and drafted into the Constitution. Further wording had gone into the motion to allow for ‘appropriate’ documentation to be shared with Audit Committee and Overview & Scrutiny Committees. These changes would be shared with the Group Leaders and the Council’s Business Management Committee.
- The commitment to be open and transparent was in place and reference was made to Cabinet as no decisions were taken in the private session. However, commercially sensitive information or legal advice given under legal privilege details would remain private.

At this juncture, the Chief Executive joined the Committee. The Chief Executive indicated that due to his late arrival he would welcome coming back to another Committee to contribute to a fuller discussion.

- Medium Communication Strategy – The Leader would seek an update from Councillor Francis onto this work and feedback to Councillor Morrall.
- Reference was made back to the previous skills questions. One of the issues was around devolution of the funding. It was highlighted the West Midlands Combined Authority had control of the spend.
- A question around procurement was raised at City Council in July 2020 to which a response was not received. A response would be forwarded to Councillor Morrall.
- Acivico was a City Council Company and set up to undertake maintenance and capital repairs. This would be primarily City Council buildings however, Acivico operated as a Teckal company. Details of where the contract currently was would be shared with Members.
- Paradise Circus – An issue occurred during phase 1 of the developments which resulted in some changes to the oversight and governance to the way this was operated. The oversight was executed by the City Council and the Local Enterprise Partnership therefore, a robust process was now in place. Phase 1 - 1 Chamberlain Square (fully let to PWC) and 2 Chamberlain Square (part let to DLA Piper). Both sites were now completed.

Phase 2 – This was now moving forward (notwithstanding covid-19 pandemic challenges).

Phase 3 – The proposals were now being completed and brought forward.

- A report on the Smithfield site would go to the Local Enterprise Partnership and once agreed this would release funding to move the scheme forward to enter into a contract. An arrangement had been entered with the Organising Committee for the Smithfield site to be used for the CWG. This would be an activation site for the CWG with a screen for people to attend. It would also host the beach volleyball, basketball, start and finish of the CWG marathon. Discussions were currently taking place with Birmingham Pride to use part of the site for pride in May 2021. This was an important regeneration site.
- Commonwealth Games logistics had been highlighted and the work with Transport for West Midlands and Langley (contractor) was in place with a logistics plan and risk register. These were constantly reviewed, and all stages of movement had been planned and thought out.
Capping off the Birchfield roundabout was currently taking place in order to take down the A34 flyover. The designs for Perry Barr Station had been featured in the media and it the Committee were assured the logistics were being delivered in a measured but planned way.
- Travel Assist Independent Review – A report of the enquiry would be made public once received.

The Chair thanked the Leader and the Chief Executive for their attendance, and it was a positive way to start the new format. The new ways of working would involve their attendance at least on an annual basis. The Audit Committee was keen to have the Cabinet Members and Directors in attendance in order to challenge portfolio holders to assist the Council with delivering its governance well.

Upon consideration, it was:

234

RESOLVED:-

That the Committee noted the updates received on the Leader's Portfolio.

At this juncture, the Leader, the Chief Executive and Councillor Bridle left the Committee. Councillor Bridle's apologies were noted for the second half of the meeting.

STATEMENT OF ACCOUNTS 2019/20

The following report of the Interim Chief Finance Officer was submitted:

(See document No. 1)

The Head of City Finance Accounts made introductory comments. The Council produced the draft Financial Statement on 28th August (3 days in advance of the statutory deadline). This was revised due to Covid-19. The public inspection of the accounts began 1st September and would last for 30 working days. The Council's Financial Statement also included the Group Accounts, Consolidated Subsidiary, Social Companies and Joint Venture.

He highlighted key areas in the financial statement with a detailed update on the Comprehensive Income and Expenditure Statement (CIES). It was noted the total cost of services had a net reduction of £152 million pounds by comparing 2018/19 to 2019/20. This was a significant movement, possibly as a result of the provision of £110 million set aside 2018/19 in respect of equal pay which was not replicated in 19/20.

The superannuation adjustments as in 2018/19, there was a transfer of staff to the Birmingham Children's Trust and it was slightly offset by the McCloud judgement. As a result, this had turned into a deficit in 19/20 partly as a result of the transfer of staff into the Council.

Other Operating Expenditure had increased by £81 million mainly due to technical accounting for the loss of disposal assets. Transfer of school assets to academies were an example of this. This would be considered as 'net nil consideration.'

Taxation and Non-Specific Grant Income had increased by £135 million due to a number of reasons. It was noted increase of grants related to capital activities and the money Government provided cost faced as a result of Covid-19.

The Balance Sheet indicated the net worth of the Council where the Council had now moved from 'net liabilities' to 'net assets' therefore the values of asset had increased.

He reminded the Committee the accounts were subject to Audit. The Audit Plan would be signed off by the Audit Committee at the November Committee, subject to the findings of any further Audit investigations.

In response to Members questions, the following points were noted:

- Pension Fund – BCC provided 3 years upfront contributions and a significant discount was received. In April, this was £369 million pounds with the gross benefit of £25.8 million pounds over 3 years. The net benefit to the Council was £17.5 million pounds. Councillor Tilsley supported this as a good investment.
- Officers' Remuneration – The Accounts and Audit Regulations state that only the names of senior officers who are paid based on a salary £150,000 per year or more (statutory requirement). A number of names of Senior officers were not indicated in this section due to GDPR. Permission would have to be sought to declare their details.

- The names of certain Senior Officers were not listed in the document for accounting purposes. Those who understood the structure of the Council could identify who was in the posts therefore transparency was in place.
- There were concerns around compensation for loss of office and this would be added to the discussion list for when the Director of Human Resources would come to the Committee.
- Officers would confirm to Councillor Jenkins if the £420,902 was signed by the JNC Panel.

The Chair requested further clarifications to be set out on the Officers' Remuneration table in order for Members to be assured funds were justified. In addition, he requested for any entries on the compensation for loss of office and expense allowance columns to be made clear.

Upon consideration, it was:

235

RESOLVED:-

That the Committee;

- Received the draft Statement of Accounts for 2019/20.
- Noted the arrangements for the audit of the accounts and for public inspection.
- A revised version of the Officers' Remuneration table to be presented at the next committee with clear references indicated.

BIRMINGHAM AUDIT ANNUAL FRAUD REPORT 2019/20

The following report of the Assistant Director, Audit & Risk Management was submitted:

(See document No. 2)

The Assistant Director for Audit and Risk Management introduced the report by informing Members the Birmingham Audit report was reported to Committee on an annual basis.

The Group Auditor informed the Committee the report summarised the counter fraud activity undertaken within Birmingham Audit for the 2019/20 financial year. Birmingham Audit contributed to two central Government reviews; Local Government Fraud Strategy – Fighting Fraud Locally, and the Government review into the Risks of Fraud and Corruption in Local Government Procurement.

Birmingham Audit was approached by the Senior Management Team to run a series of workshops for Adult Social Care around fraud awareness. Training

was delivered to 150 Adult Social Care Managers and as a result, Birmingham Audit had received a number of referrals.

Birmingham Audit were featured in the Birmingham Mail on their work around Social Housing Fraud.

He highlighted there was a decrease in the levels of fraud investigations from £235,000 Corporate Fraud which varied year on year.

There were 105 referrals made last year and 109 referrals the year before therefore this remained constant.

Last year, there was a decrease of £100,000 in salary overpayments which was investigated by the Auditing Team.

Last year, the main investigations that took place were around Direct Payments within Adult Social Care. In addition, a couple of investigations took place in schools as well as employees misusing blue badges which were detailed in 5.7 - 5.9 of the report.

Reference was made to Social Housing fraud and Council Tax Fraud. It was noted 59 Social Housing properties were recovered last year.

The largest improvement was around the False Housing Applications in which last year 667 applications were deemed to be fraudulent. The 'All City Risking' process had been put in place to tackle this issue which allowed instant data match.

Council Tax debit had been increased by £429,000 and Housing benefit anomalies were identified at £474,000.

Birmingham Audit were involved with the National Fraud Initiative which was coming to an end (2018/19). Preparations were taking place for 2020/21.

There were 40,000 matches to review and there were £500,000 in terms of fraud and error identified mainly due to housing benefit.

The report did not cover the whole of the Covid-19 timeframe however, the end of the 19/20 financial year issues of Covid-19 were in place. A number of Fraud Bulletins had been communicated around the scams that were taking place. In addition, work around the Business Support Grants to prevent fraudulent applications had taken place.

The Social Housing Fraud Investigators were unable to visit tenants and this would impact next year's results.

The Chair thanked the Group Auditor for the presentation of the report. He indicated the report would be useful for the engagement session with the Cabinet Member of Finance and Resources and the Director for Human Resources due to the internal fraud issues. The Committee would want to raise questions around issues such as blue badges.

It was suggested key areas were drawn out of this report and provided as a brief to when the Cabinet Member of Finance and Resources would be in attendance.

In response to Members questions, the following points were noted:

- There were a number of ways for the public to report fraudulent activity. The options indicated by officers were; write to the Council, there was a mailbox, Council's website indicates hotline, contact referral forms, confidential disclosure.
- Whistleblowing – This was a separate process and dealt with Legal Services. The public could make confidential report to the whistleblowing hotline into Legal Services. Any fraud related matters would be investigated through Birmingham Audit.
- Due to stress and anxiety around Covid-19, there may be people who forget to update their details around housing benefit and officers assured Members a pragmatic approach would be taken. It was clarified Housing Benefit Fraud was no longer investigated by Birmingham Audit. The Department of Working Pensions executed this function approximately 5 years ago. The Local Authority only administered housing benefit however, they did not have the authority to investigate the area. The only investigations Birmingham Audit undertook were around Social Housing, Council Tax issues. Issues around Housing Benefit could be identified and corrected through Revenues and Benefits. This could be referred to the Department of Working Pensions and a decision would be made to investigate.
- Council Tax Reduction would be dealt through relevant Birmingham Audit Team. Most of the changes were made on a corrective basis for single persons discount where a person had claimed a discount.
- The 'All City Risking' initiative enabled Birmingham Audit to identify fraud sooner.
- There were more investigations outstanding at the end of this year than last year due to Covid-19 impact. A number of the investigations were due to be concluded by the end of the year however, these were unable to closed due to the lockdown. Several investigations had been stalled due to not being able to hold face to face interviews.

Upon consideration, it was:

236

RESOLVED:-

That the Committee noted the work undertaken during the year and draw assurance from the policies and procedures that are in place to prevent and detect fraud and error.

ANNUAL PROGRESS REPORT AND SECTOR UPDATE

The following report of the External Auditor was submitted:

(See document No. 3)

The Engagement Manager, Grant Thornton updated Members on the progress from the External Audit for 2019/20. Due to change in the timetable there would be a substantial amount of time between the Audit Plan and Audit Findings report.

The report set out the risks identified in the Audit Plan and Addendum which was issued in April 2020 and what had been done to address them. The External Auditors were working on an opinion by the end of November (inline with the revised timelines for 2019/20). Fortnightly meetings were taking place with the Finance Team to mitigate any issues.

The Value for Money had progressed however, this was slower than normal due delays in arranging meetings as Covid-19 issues took precedence. The aim would be to complete this work during October. It was noted if anything was to arise before signing the opinion, this would have to be taken into account before formal conclusions were made.

Reference was made to the Redmond Review where the outcomes would be published early September 2020. This may have an impact to local government reporting, auditing going forward.

The Chair thanked for the External Auditors update. He looked forward to the presentation on the Redmond Review and future updates. It was recognised there were challenges and delays could be caused due to the current circumstance of Covid-19.

Upon consideration, it was:

237

RESOLVED:-

That the Committee noted the content of the annual progress report and the sector update.

SCHEDULE OF OUTSTANDING MINUTES

Information for noting.

- Minute 193 28/01/2020 – Travel Assist – Independent Review taking place and the report would be shared once publicly available.
 - Minute 223 28/07/2020 – The report on retrospective purchase orders and Directorates not complying with procedures – to be shared at 20 October meeting.
 - Minute 226 28/07/2020 – Process of the exit of Senior Officers – The Chair of the Audit Committee wrote to the Chair of the JNC Panel recommending a standing item to be placed onto the JNC Panel agenda around regular updates of senior officers' cases. An Annual report on senior officers' claims would be shared with both the JNC Panel and Audit Committee.
Note: The Chair of the JNC Panel had confirmed this action and the response would be distributed to Members.
 - Minute 227 28/07/2020 – Other Urgent Business – Travel Assist - A written response to be provided by Officers to the Committee related to the avoidance of deed poll changes via DBS checks. The Interim City Solicitor would chase response to this item.
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DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place on Tuesday, 20 October 2020 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

RESOLVED: -

238 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

RESOLVED:-

239 That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

EXCLUSION OF THE PUBLIC

That in view of the nature of the business to be transacted which includes exempt information of the category exempt Paragraph 1,2,3 & 7, the public be now excluded from the meeting.

MINUTES – AUDIT COMMITTEE – 28 JULY 2020 - PRIVATE

240

RESOLVED:-

That the private minutes of the last meeting were agreed and no matters arising.

The meeting ended at 14:54 hours.

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CHAIR

